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NSC/WHITE HOUSE FOR THE VICE PRESIDENT FROM AMBASSADOR
CHRISTOPHER R. HILL

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SUBJECT: SCENESETTER FOR VISIT OF VICE PRESIDENT BIDEN TO
IRAQ (SEPTEMBER 14-17, 2009)

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INTRODUCTION

1. (S/NF) Mr. Vice President, your upcoming trip to Iraq comes at an important time in Iraq's political calendar. As the Islamic month of Ramadan draws to a close, Iraqi political leaders are furiously at work negotiating potential alliances in advance of the January 2010 parliamentary elections. As evidenced by the strong showing of his coalition in the 2009 provincial elections, Maliki has boosted his national popularity by assembling a commendable security record and is now weighing whether to challenge his Shia rivals and form his own coalition to try to recapture the post of Prime Minister. Iraq's Sunnis, recognizing that they disadvantaged themselves by boycotting the January 2005 national polls, are increasingly active in the political process, although Sunni parties remain fragmented. The Kurds, meanwhile, are setting up the newly-elected Kurdistan Regional Government (KRG) as President Talabani (PUK) and KRG President Barzani (KDP) try to convince the two upstart parties (the Change List, and Service and Reform) to build a unified Kurdish electoral list for the January vote.

AUGUST 19 BOMBINGS

2. (S/NF) Two events in particular have shaken the political landscape here since your July visit. First, the August 19 bombings in Baghdad put Maliki on the defensive, and he has since scrambled to uphold his security credentials. His political opponents were quick to criticize the PM for security lapses while internal finger-pointing within the Cabinet led Maliki to consider sacking ministerial-level officials. Our engagement helped avoid such a hasty move, but Maliki, under public pressure to respond decisively, instinctively saw a Ba'athist plot behind the attacks, even as al-Qaeda claimed responsibility, and subsequently accused Syria of harboring two individuals who allegedly helped orchestrate the bombings. When Damascus refused to extradite them, Maliki withdrew Iraq's ambassador to Syria and sent a letter to UNSYG Ban requesting the formation of an UN-led effort to investigate foreign intervention in and support for terrorist attacks inside of Iraq. Maliki has personally requested active U.S. support for such an exercise even though this could hinder our strategy for engaging Syria on key regional issues. We're now looking at ways that we can work with the Iraqis to support them at the UN, without jeopardizing our broader agenda.

3. (S/NF) Regarding our obligation to help the Iraqis exit

from Chapter VII status, a key GOI preoccupation, it is not clear that we have a way forward at present on the Kuwait-related resolutions. Maliki has made clear repeatedly that he will not at present re-affirm 833 in its entirety, especially the maritime border. We continue to urge the GOI to appoint an Ambassador to Kuwait, empowered to raise these issues with the Kuwaitis directly and to begin a dialog with Kuwait on the broader tenets of their relationship. Going forward, we will need to think creatively about formulas that express a re-affirmation of 833 without precluding the ability of sovereign states to peacefully discuss adjustments on demarcation of borders. For more immediate progress, we should also look at lower-hanging fruit, such as the WMD-related resolution (currently hung up over Iraq's inability to quickly implement the IAEA-required Additional Protocol) and the Oil-for-Food resolution. We need to press the Iraqis to take the necessary steps on their end to close the books on both these resolutions.

BUILDING ELECTORAL COALITIONS

14. (S/NF) The second major political event was the August 24 announcement of the formation of the Shia-led Iraqi National Alliance (INA), minus Maliki's Da'wa party. Apart from some token Sunni representation, the INA closely resembles the Shia coalition that helped bring Maliki to power. While Maliki would likely have preferred to join the INA, he opted out due to disagreements over the share of parliamentary seats for his party and his demand to be the group's PM nominee. Now that he is unencumbered by his former sectarian partners, Maliki is seriously considering pursuing a

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national, non-sectarian strategy, not a Shia one, although his sectarian leanings still surface from time to time and are carefully scrutinized by potential Sunni and secular Shia allies. He is accordingly trying to form a broad-based, cross-sectarian electoral coalition and is actively reaching out to Sunni groups, particularly tribal leaders, in the process. Whether he will succeed in his quest is uncertain. Many Iraqis profess a desire to move beyond sectarian politics, but may still be tempted to stick to their old allegiances at the ballot box. An upwards trend in terrorist attacks in the elections run-up may reinforce sectarian identities and hurt Maliki's electoral showing. Fortunately, recent attacks have not sparked reprisal violence as most Iraqi groups, including the Islamist Shia factions, recognize this is not in their interests.

HOLDING TIMELY ELECTIONS

15. (S/NF) Regardless of pre-election maneuvering, our political priority remains the holding of credible and legitimate national elections in January, as required by the Iraqi constitution. Parliament has yet to adopt a national elections law despite pleas for prompt action from the Independent High Electoral Commission (IHEC), but has committed itself to passing such legislation by October 15. Parliament reconvened from its summer break on September 8; however, it likely will not get down to serious business until after the week of the Eid al-Fitr holiday, which will begin on or about September 21. This does not leave much time, especially given the differing views within parliament on election mechanics and the electoral treatment of Kirkuk, which have so far stymied forward progress. I recommend that you emphasize the need for passage of an electoral law and the holding of elections on schedule in all appropriate meetings during your visit.

ARAB-KURD ISSUES

16. (S/NF) Maliki's August 2 meeting with KRG President

Barzani and other Kurd leaders has led to agreements in principle to integrate two Peshmerga brigades into the Iraqi Army, which would be a major step in building Arab-Kurd security cooperation and reducing the risk of military confrontation. The Iraqi Interior and Defense ministers met face-to-face for the first time with their Kurdish counterparts at a meeting hosted by General Odierno on September 5. The two sides have also agreed to establish a joint committee to discuss the pending hydrocarbons and revenue-sharing laws, disputed internal boundaries (DIBs), and the Arab-Kurd standoff in the Mosul Provincial Council. Much work remains, however, and this recent progress may not reflect a commitment to reaching lasting Arab-Kurd accommodation as much as it represents a tentative step towards a post-election political alliance that Maliki believes could help him retain the PM slot and which Barzani hopes will enhance his influence in Baghdad. Both sides are also mulling over the potential impact that the coming U.S. drawdown could have on their respective leverage. We plan to work closely with UNAMI to push forward the DIBs negotiations, while recognizing that continued movement on Arab-Kurd issues will have to await the seating of a new Iraqi government following the January elections.

STATUS OF KIRKUK
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¶7. (S/NF) The Embassy is ramping up our diplomatic engagement with the GOI and the Kurds on Kirkuk, as MNF-I works to increase U.S.-GOI-KRG security coordination and establish a cooperative security architecture in disputed areas. The United States has never had a publicly stated policy on the final status of Kirkuk, other than to say we support the UNAMI process for a negotiated DIBs settlement that includes Kirkuk.

¶8. (S/NF) As Iraq enters into the volatile electoral season, the United States will need to take a more visible and muscular role to defuse Kirkuk as a potential security flashpoint and divisive campaign issue. UNAMI's new SRSG strongly agrees that the United States should adopt a more directive and hands-on approach. We have accordingly submitted a detailed policy and related strategy

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recommendation that, consistent with UNAMI's views, will help steer Arab and Kurd negotiators toward an outcome on Kirkuk that is sustainable, consensus-based and contributes to Iraq's national unity. Rather than an up or down referendum on whether Kirkuk should be a part of the KRG, which Barzani steadfastly wants and which UNAMI thinks will lead to civil war, we believe the United States should quietly advocate a negotiated interim "special status" arrangement making Kirkuk a distinct administrative territory for 10 years, renewable by agreement of the KRG and GOI, with special guarantees and protections for all communities. The arrangement would include a power-sharing formula for the Kirkuk provincial council among Arabs, Kurds and Turkomen. This will be a very difficult message for the Kurds, and Barzani in particular, to hear. If we don't make clear now where we stand, the Kurds may harden a negotiating position based on a misreading of our policy. To help make our message more palatable, we should be prepared to give the Kurds continued assurances related to security (consistent with the U.S.-Iraq Security Agreement) and re-double our ongoing efforts to facilitate an agreement on hydrocarbon legislation to resolve differences on the management of Iraq's oil and gas resources. Messaging of the Kurds, however, needs to be done for now in private rather than as a matter of public policy.

TRANSFORMING IRAQ THROUGH OIL

¶9. (SBU) Oil is the lifeblood of the Iraqi economy, providing 65 percent of GDP and 90 percent of annual revenues to the

government. For July 2009, oil production was 2.5 million barrels per day (bpd), down from its 1979 peak of 3.5 million bpd, including 2 million barrels in exports. If Iraq is to modernize and develop, it must exploit its vast oil reserves, thought to be the third largest in the world. Unfortunately, Iraq's first oil licensing round) held on June 30) was a mixed success. The GOI awarded only one field, though its planned expansion should increase Iraq's oil production over the next six years by 1.8 million bpd) a nearly 75 percent increase over today's levels. The June 30 bid round also demonstrated Iraq's willingness to engage (for the first time in decades) in competitive and market-oriented oil sector development, and to take advantage of international oil companies' (IOCs) technical capabilities and financial resources.

¶10. (C) At the same time, the GOI made many mistakes during the bid round. Primarily, the GOI offered unreasonably low rates of return that failed to compensate IOCs for the political and security risks in doing business in Iraq. Seven of eight oil and gas fields were left on the table, as many top IOCs walked away from some of the world's largest oil fields. If Iraq had awarded just two more fields, the resulting investment would have added 2.9 million barrels per day of oil production, more than doubling current production. And the investment to develop just one oil field could have generated up to \$50 billion in investment, \$600 billion in revenues to the GOI, and 200,000 direct and indirect jobs.

¶11. (C) Iraq cannot afford to miss such enormous opportunities. Investment on this scale takes years to implement, and could transform the economy and society of Iraq. In your discussions with government officials, you should emphasize that the GOI learn from its missteps and offer appropriate rates of return in the next oil bid round, in November 2009. Iraq must also invest aggressively in the physical and financial infrastructure that will make spectacular gains in oil production and national income possible. Even under the best of circumstances, it will take several years before revenue from newly awarded fields begins to flow significantly. During that time, Iraq) with continuing support from the USG and the international community) must focus on improving its investment climate, clarifying and streamlining its tax code, and passing key legislation (such as the hydrocarbons framework law). These efforts will reduce risk, attract more investment, and raise Iraq's national revenues.

CONCLUSION -----

¶12. (C) As you know, Mr. Vice President, we face many challenges in achieving the President's vision for Iraq as a stable, sovereign and self-reliant nation. Internal

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political considerations related to the upcoming national elections will make our job even more complicated. But there is a way ahead and your visit will help us to exploit opportunities for progress on key issues. My team and I look forward to your arrival.
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